EBERSPACHER

The Advisability of Establishing
A Central Bank in the United States

Business Course

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THE ADVISABILITY OF ESTABLISHING

A CENTRAL BANK IN THE UNITED STATES

by

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THIS IS TO CERTIFY THAT THE THESIS PREPARED UNDER MY SUPERVISION BY

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C O N T E N T S .

INTRODUCTION.

There has been so much discussion of currency reform in recent years that it may be proper to question the permanent value of our banking laws. The student of banking is at once struck by the great dissimilarity between the American system and the systems of other leading commercial nations. England, France, Germany, Austria Hungary, Denmark and Italy all have central institutions which constitute the heart of their bank structure. Here in the United States, on the other hand, we have developed a system of free banking where the association of banks is due rather to the necessities of business than to any legal requirement. We have a government treasury which receives and disburses the public money while Europe leaves the fiscal agency of the governments largely in the hands of great central banks with certain monopoly privileges. The bank act which forms the basis of our banking legislation has a number of evident defects while the European countries have an established plan which has been in successful operation for years.

The United States has passed through an unprecedented development in which its social and economic conditions have changed rapidly and the staid stability of older countries has been held somewhat in ridicule. This great industrial change may account, in part, for the inability of our present banking system to properly accommodate the demands of business. It certainly gives us ample reasons for not being bound down to century old customs and traditions. However, the time is coming when all of our policies will be definitely fixed. We have firmly established all the fundamental principles of our government - some at great cost. It is the American doctrine that no man or special class of men shall ever enjoy an undue advantage over any of their fellow men. Any change in our present system of banking will necessarily follow these lines.

It is the purpose of this paper to study the present banking system in the United States and to consider its relative merits and defects; to inquire into our banking experience and also that of the leading European countries; and to determine on the advisability of establishing a central bank in the United States.

THE NATIONAL BANKING SYSTEM.

American practice is based on the free banking principle, namely: the idea of giving the people a choice as to the number of banks rather than the granting of a legal monopoly to one group of individuals. Consequently, the United States is the home of many banks organized and regulated by a federal law. Closely following this law are certain state bank acts under the sanction of which numerous state associations are operated. The common law right also allows the private banking business and although it is found all over the Union the private bank cannot be designated as a characteristic institution. The national bank is the typical commercial bank. It is the only bank of issue and its principles are followed in the best state banking laws. An idea of the number and importance of the three classes of banks is shown in the following table[1] :

(See next page.)

1. Annual Report of Comptroller of Currency. December 3, 1906 p. 59.

Classification	Number	Capital	Surplus and Undivided Profits	Deposits	Circulation	Total
National	6,053	$ 826,129,785	$ 665,163,368	$4,145,783,632 [a]	$510,860,726	$6,147,937,511
State including Trust Co. & Sav. Bnk	11,852	739,163,401	893,679,524	8,159,894,029	None	9,792,736,954
Based on reports of Private Banks	3,491	75,356,000 [b]	33,280,000	413,160,000	None	521,796,000
Total	21,396	1,640,649,186	1,592,122,892	12,718,837,661	510,860,726	16,462,470,465

a. Includes Government deposits

b. Estimated capital, etc. based on reports received from private banks.

THE NATIONAL BANK ACT.

The national banking system owes its existence to the Civil War. The law, which originated the most extensive system in the world - Mulhall estimates that the United States has one third the banking power of the world -- was a war measure. In 1861 the government was in great need of money in order to finance the war. Taxes had been increased, treasury notes had been issued and a sale of bonds had been resorted to. Of necessity, bond issue was the principal method of raising money. However, the uncertainty of results greatly demoralized the bond market both at home and abroad. Hence the Secretary of the Treasury, Salomon P. Chase, in his annual report to Congress in 1861, proposed a plan by which American capitalists and bankers would be attracted by the bond sales. Banking experience had demonstrated that the unlimited issue of notes by any and all banks was a pernicious practice full of disastrous results. Secretary Chase took advantage of this condition by suggesting that Congress pass a national law under which corporations with the note issue privilege could be organized to do banking.[1] Among the arguments in favor of the new system he contended: 1. that it would guarantee a uniform note circulation; 2. that it would establish an absolutely safe bank note issue; and 3. that it would secure a common interest in the disposition of national securities. His provision for safety was fashioned after the excellent New York state plan of requiring a deposit of bonds as the basis of note circulation. At first the proposal was not welcomed in Congress but as the scheme was discussed it found many friends among the members and two years later - on February 25, 1863 - the national bank act was passed. [2]

1. Finance Report 1861, pp. 18 - 19.
2. Congressional Globe. 1863.

In the present paper it will be unnecessary to give a detailed history of the act. Suffice it to say that the underlying principles still remain and the few changes made have merely been minor alterations in order to meet new conditions.

The act, as it exists today, is entitled " An act to provide a national currency secured by a pledge of United States bonds, and to provide for the circulation and redemption thereof. " [1] It is evident that the framers had in mind, primarily, the establishment of a national currency which should be uniform and circulate at par in all parts of the Union. They no doubt, expected it to be, ultimately, the only paper currency of the country. The wisdom of this idea will be discussed in a later section.

National banks are under the supervision of a Bureau in the Treasury Department known as the Comptroller's office. It is the duty of this office to execute the national bank laws. Whenever a group of individuals decide to organize a national bank they must make application to the Comptroller for a charter. There must be at least five incorporators and each must subscribe for at least ten shares of capital stock at one hundred dollars per share. This is necessary in order that the business may be governed by a board of at least five directors. Among other important requirements in making their application the incorporators must also satisfy the Comptroller as to their reputation and financial standing. [2] The capital required depends upon the size of the city in which the bank is to be located. The minimum capital is $25,000 in places the population of which does not exceed 3,000; $50,000 in towns of 6,000 inhabitants or less; $100,000 in places the population of

1. National Bank Act as amended 1905. p. 3, Chapter I. sec. 1.
2. Instructions and suggestions of Comptroller of Currency relative to the organization etc., of national banks. 1903. p 3.

which does not exceed 50,000 and $200,000 in cities with a population of over 50,000. The capital stock must be paid in full within five months after the commencement of business and 50% must be paid in before the Comptroller will authorize the corporation to begin business. Payments of stock must be sworn and certified to by the President or Cashier and any impairment of capital must be restored under the penalty of a receivership. [1]

Before commencing business every national bank is required to deposit with the Treasurer of the United States " any United States registered bonds, bearing interest, to an amount not less than one fourth of the capital the capital being $150,000 or less, as security for their circulating notes." [2] Notes may be issued to an amount equal to the par value of the bonds deposited. A redemption fund in lawful money equal to 5% of the circulating notes is kept with the Treasurer of the United States. The Treasury acts as a central redemption agency and all bank notes are redeemable at par. National bank currency circulates at par in all parts of the Union due to the fact that it is legal tender " in payment of taxes, excises, public lands and all other dues to the United states, except duties on imports; and also for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on the public debt, and in redemption of the national currency." [3] In order to free these notes from competition and to insure a uniform bank currency, Congress passed a prohibitory tax of 10% on all state bank issues. [4]

1. For entire paragraph - Ibid. p. 3.
2. National Bank act as amended. 1903. Chapter III sec. 49 p. 12.
3. National Bank act. 1903. Chapter III. sec. 62 p. 15.
4. Ibid. Chapter III sec. 86. p. 21.

Shareholders are held responsible ratably for the debts of the corporations, each to the amount of his stock in addition to the capital ac actually invested by him. The numerous sections realting to the duties of directors and officers might be discussed at length but such an analysis would take too much space in this short paper. Hence, I shall make only brief mention of a few of the more fundamental sections of the national bank act.

In order to maintain itself as a pure commercial bank, no national association is permitted to lend money on realestate. This prohibition is based on the theory that a commercial bank cannot well meet current demands when its laws are on long time paper which is not readily convert-ible. Another proper prohibition allows no bank to lend to any one person or corporation a sum equal to more than 10% of its capital and sur-plus. This tends to alleviate the dangerous practice of lending a single party or corporation an unreasonable portion of the bank's funds.

It would hardly be fair to the national bank act to ignore the provision for supervision and examination of the associations incorporated under it. [1] As has been said "The treasury department takes admin-istrative responsibility over national banks." There are sections re-lating to "organization and powers of National Banks", " Regulation of the Banking Business", " Extension of Corporate Existence", " Crimes" etc., which must be enforced. This is done through a system of examinations carried on by national bank examiners. A bank examiner inquires into the condition of each bank in his territory as often as shall be deemed necessary and it is his duty " to make a full and detailed report of the condition of the association to the Comptroller." At least five sworn

1. National Bank act 1903. Chapter. I sec. 119,120,121,p.28 Sec.125-130 p 29.

statements per year concerning the condition of every national bank must be made to the Comptroller by its officers. These reports are published by the Comptroller and the banking associations are required to print a statement of their condition in their home paper.

We have considered the relation of national banks to the public. They have also a connection with the government's fiscal operations. Unlike most other countries the United States does not keep all of its money with the national banks. In other words it cannot be said that the American institutions are the fiscal agents of the government. The moneys of the United States are kept in the Treasury at Washington and nine sub-treasuries. An independent treasury is the receiving and disbursing agent of the government. However, the Secretary of the Treasury may deposit public funds with the national banks upon the deposit of United States bonds or other security satisfactory to the Secretary. These deposits are limited to those of internal revenue and customs duties. In recent years the large sums which have accumulated in the Treasury at the expense of the money market have caused numerous embarrassments, the evils of which I shall treat of later. Before leaving this subject it may be well to note that national banks have been of material aid to the government on account of their interest in United States bonds. Under present conditions a government loan can always find a ready market amongst national banks.

MERITS OF THE PRESENT SYSTEM.

The national banking system has several commendable characteristics. "Experience has shown plainly the gain secured by uniformity of regulation and unity of supervision, - - - Bank credit is strengthened

by the fact that issuing banks all rest upon the same law universally known, and under the same recognized authority, whose mode of operation is universally understood."[1] All note issuing corporations must operate with capital fully paid up. Their incorporators must be men of good character and financial standing. Their business is under supervision of a department of the government which sends examiners to every bank for the purpose of making a uniform examination. Every bank must publish a list of its assets and liabilities in its home paper. Although these statements may not be carefully studied by many of the patrons yet the mere fact of publicity under oath is an enormous improvement over the private bank which seldom gives its customers an idea of the condition of its business.

It has been said that the framers of the bank act of 1863 had in mind the establishment of a bank currency which should ultimately take the place of all other paper issues. The banking principle of note issue is accepted by all the leading students of money and banking as being the correct one.[2] It has been urged that " the issuing government can secure a certain amount of revenue without resorting to the ordinary forms of taxation. Over and against this fiscal advantage must be set the expense of getting and maintaining the specie reserve necessary to insure prompt redemption of the notes." [3] There is also a question as to whether the issue of notes is a proper function of government. Whatever may be the truth of this objection, it cannot be denied that a government issue can never be made to fluctuate according to the demands of commerce.

1. Dunbar " Economic Essays." p. 228.
2. Kinley, Money. Chapter XVII pp 386 and 87.
3. Ibid. Chapter XVII pp. 356 and 57.

Experience has demonstrated that paper issues left to legislative bodies is apt to be in excess at times of stress and crisis. Such a condition instead of giving the desired relief only tends to augment the peril. Banks, on the other hand, will try to keep their note issues in accordance with the demands of business because over issue means immediate redemption and a loss of the cash reserve.

Experience has shown that the note issue of national banks is absolutely safe. Never during the history of our national banks have note holders lost one dollar on account of the insolvency of a bank. [1] As has been stated, our bank currency rests upon a permanent investment in United States bonds, namely: Notes are issued equal to the par value of interest bearing securities. This bond secured system has always been recognized as safe, as the experience of the Bank of England and our own excellent New York free banking system demonstrated years ago. Added to the security of the bonds is the 5% redemption fund of lawful money which is always held in the Treasury of the United States. There is another feature which contains the element of safety. Bank notes are accepted as legal tender by all national banks. The United States receives them for all government dues except the payment of duties on imports. It is needless to say that the action of the government insures a free circulation of the notes in all parts of the country as far as safety in concerned.

Besides the elements of safety and uniformity Professor Dunbar [2] says " in the course of a generation the national banking system has collected a mass of legislation, judicial precedents, and rules of official practice, which make up a body of administrative laws of remarkable com-

1. Appendix Comptroller's Report Sec. 3. 1906.
2. Dunbar's "Economic Essays p 229.

pleteness and value, known from one end of the country to the other - a common possession, in which it is not impossible that all our people may yet come to appreciate their common interest."

DEFECTS OF THE PRESENT SYSTEM.

While the merits of the national bank act are frequently not appreciated there are some potent defects which should be remedied at once. Of particular importance is the fact that we do not recognize the banking theory of note issue. "There are two general uses for money or currency in modern business. The first is for bank reserves against deposits or note issue and for this use gold or its equivalent only should be employed." [1] This unqualified demand for gold or its equivalent is due to the present status of gold as the standard in international trade. " The second use is for daily transactions. This is the proper field for the use of bank notes." [2] Bank notes must be immediately redeemable in metallic money if credit is to expand and contract in accordance with business needs. Thus in order to give the maximum service and perform their proper function bank notes should be allowed to take on the same nature as a bank deposit. Both are bank credits, payable on demand, and, therefore, one should be obtainable just as readily as the other. Under the present system, bank note issue is so restricted and inelastic that deposits are often drawn out much to the discomforture of the reserve. Bank currency is needed exclusively to supply business with a safe and adequate medium of exchange and therefore the point of adaptability is highly important.

1. Annual Report of Comptroller of the Currency. Dec. 3.1906, p.68.
2. Ibid p. 69.

Mr. Frank A. Vanderlip, Vice President, of the National City Bank of New York has said; " In this year - 1906 - there were thirty three weeks in which the call money rate was 6% or higher; at one time it touched 60%. High rates for money have by no means been confined to loans in speculative markets. Through a considerable portion of the year merchants and manufacturers have been forced to pay 6% and sometimes well above that rate. Money rates have been so high that the ordinary money market for investment securities has been much restricted." [1] These words of Mr. Vanderlip's are words of complaint common in the mouths of all our leading bankers and business men. In fact the demand for a more elastic currency has caused a great agitation for banking legislation to remedy the evil. This was recently evidenced by the action of various Chambers of Commerce, State and National Bankers' Associations in recommending an immediate action of Congress in the matter. [2] There seems to be a unanimous consensus of opinion in favor currency reform because our note issue does not respond readily to the varying demands upon it, namely: furnishing the proper expansion and contraction of credit.

The United States has a great diversity of industries and among her most important is that of agriculture. Agriculture is an especially dominant factor in the western and southern states. Since crops come and go with the seasons it is apparent that there will be seasonal demands for money. In the south and west during the crop moving seasons there is a great demand on the part of the buyers of agricultural products for loans

1. Magazine section "Chicago Record Herald" Mar. 3, 1907. p 1.
2. See "Report of the Currency Commission of the American Banker's Association." pamp. 1906. " Report special Committee of the Chamber of Commerce of N. Y." pamp. "Currency" 1906.

and discounts. Coincident with this demand comes the need of farmers for cash in order to pay their laborers. As a result the money reserves of the country banks are reduced at the very time when the demand for loans and discounts is increasing. In all, Mr. Vanderlip estimates that at least $150,000,000 more money is needed at this time. With the purpose of self-preservation " each bank acts individually and looks only to its own position"[1] at a time when concerted action would be more desirable. Hence every year during the month of July the country banks begin to draw out their deposits with their city correspondents.

Eventually New York banks must suffer their reserves to lower since they hold the greater part of the money balances at this time. While the drain continues the only practical thing to do is to contract credit, resort to the importation of gold and call on the secretary of the Treasury for more government deposits. Recently it has been the policy of Secretary Shaw to come to the aid of the money market by a deposit of internal revenue collections. His successor, Mr. Cortelyou, followed this plan in the recent panic in Wall Street. Secretary Cortelyou enjoys a further privilege - by the Aldrich Amendment, 1906 - which also allows the secretary of the Treasury to deposit customs duties as well as internal revenue. The deposit from these two sources of national revenue at the discretion of the secretary of the Treasury, has been of great service but it has not prevented the inevitable rise of money rates during the crop moving season. With this condition follows not only a feeling of embarrassment and fear amongst the bankers but also a check in industrial operations.

1. The Currency "Special Committee" of N. Y. Chamber of Commerce." pamp. 1906 p. 4.

An opposite situation presents itself every spring. During the winter and spring the demand for loans and discounts decreases in the agricultural districts. The farmer has paid his laborers and other expenses and has placed his profit in the bank. Money accumulates in the vaults of the country banker which he cannot lend to the limited business establishments in his community. Perhaps he is paying interest on time deposits and he must then, as a matter of business necessity, hunt other markets in order to make a profit. Naturally this surplus is sent to the city banks, who in competition for deposits, offer the country banker interest on his balances. This affords him a small profit which the city banker must make in addition to his own earnings. Consequently, in order to keep up a favorable profit and loss account the city banks lend the surplus in the great exchanges. They do this of necessity because the invariable crop demand will soon come and it would hence be foolish to lend on long time paper. The abundance of money in the exchanges, at this time, causes a low rate of interest and the speculators begin to enjoy their annual "spring boom". In recent years this " spring boom" has tempted some of the more venturesome out-of-town bankers to enter the city loan market. The great danger of this practice is the fact that the inexperienced country bankers are far away from the market, which added to their unfamiliarity with the speculative markets might result in severe loss.

Most economists and business men suggest that we change our bond secured circulation scheme in order to better the evil of inelasticity. As it is, our bank circulation is tied to the public debt. This not only makes it necessary to maintain a perpetual debt but also discourages cir-

culation as government credit rises. In other words as the credit of the United States rises, the inducement to buy bonds for note issue decreases due to the little or no profit accruing. Some figures prepared by the government will illustrate this point.

The average net price monthly, of 2% consols of 1930 fluctuated during the year 1906 from 103.075 in February to 105.090 in September. At the minimum price during the year (103.075) the profit on circulation was 1.160% if loans could be placed at 6%. At the same money rate the profit on circulation based on bonds at 105.090 was .982%. The average rate of profit, based on the average cost of bonds, monthly, during the year ended October 31, 1906, was 1.09% at 6% money.[1] These figures demonstrate that "our bank note issue depends upon the investment conditions of the United States bond market rather than upon the conditions of trade."[2]

There have been many complaints from the south and west on account of the lack of banking capital. This was especially true before the law of 1900 which allows the incorporation of national banks with $25,000 capital in towns of 3,000 or less inhabitants. The effect of that provision is indicated in the following tables:[3]

(See next page.)

1. Annual Report of Comptroller of the Currency. Dec. 3, 1906. p. 19.
2. The Currency "Report Special Committee of the Chamber of Commerce" pamp. 1906 p. 7.
3. Report Comptroller of the Currency . Dec. 3, 1906 pp 30 and 31.

National Banks organized from Mar 14, 1900 to October. 31, 1906

States	Capital Less than $50,000: Number	Capital Less than $50,000: Capital	Capital More than $50,000: Number	Capital More than $50,000: Capital	Total Organizations: Number	Total Organizations: Capital
New England	13	$ 330,000	25	$ 5,035,000	38	$ 5,365,000
Eastern	261	6,781,500	258	33,065,000	519	39,846,500
Southern	480	12,828,500	311	30,885,000	791	43,713,500
Middle Western	614	16,004,500	284	38,175,000	898	54,179,500
Western	596	15,321,000	132	8,790,000	728	24,111,000
Pacific	96	2,440,000	82	10,107,800	178	12,547,800
Island Possessions	2	50,000	3	650,000	5	700,000
T o t a l	2,062	53,755,500	1,095	126,707,800	3,157	180,463,300

Further Classification

Classification	Conversions: No	Conversions: Capital	Reorganizations: No.	Reorganizations: Capital	Primary Organizations: No.	Primary Organizations: Capital
Capital less than $50,000	228	$ 6,044,000	657	$ 17,544,000	1,177	$ 30,167,500
Capital, $50,000 or more	124	17,212,800	376	48,245,000	595	61,250,000
T o t a l	352	23,256,800	1,033	65,789,000	1,772	91,417,500

From the above it will be seen that there has been a small increase in the number of banks during the past six years. In considerating the increase the conversion of state banks must be taken into account and therefore the actual gain in banking capital has not been as great as it appears at first sight. By far the greatest number have been organized in the Middle Western, Western and Southern states. However, the west and south are still deficient in banking facilities.

It has always been the policy of conservatives to "go slow" in the development of a new country. Conditions must be learned and that knowledge is only acquired by experience. Hence we must not be surprised that the eastern lender is rather reluctant to enter a more uncertain loan field when his own state is still developing. As a result the south and west are working out in a large measure their own salvation. State banking laws have been passed which allow the creation of banks with small capital. For example state banks with a minimum capital of $5,000 are allowed in Kansas, Nebraska and the Dakotas. These laws were undoubtedly passed to satisfy local conditions. It shows that many towns capable of development and in need of a bank cannot afford to organize a national bank with even $25,000 capital. Added to this, is the hardship of purchasing United States bonds equal to at least 25% of the capital. It seems absurd that a western or a southern town would send some $6,000 to the east in order to invest in nearly profitless bonds when all of the money is so badly needed at home.

The railroads have done much to develop the west. They are just beginning to develop the south. No matter how important transportation is, it cannot do much good for a country unless the credit machinery is also there.

In order to develop towns and cities and to establish markets for the farmer there must of necessity be a supply of capital and credit to carry on operations. In those the south and west still seem to be deficient notwithstanding the help of the act of 1900. It has often been questioned whether even this partial help will ultimately be for the best. Professor Dunbar said that " any change in capital should be in the direction of consolidation rather than subdivision." [1] This brings up the interesting question of branch banking which will be treated in the next section.

VARIOUS SYSTEMS PROPOSED.

Numerous changes have been suggested with a view to securing the desired elasticity of note issue. Economists, financiers, business men and treasury officials have all presented their pet schemes. Among those offered are many feasible ones and their principles range from that of allowing any bank to issue any amount of currency to the proposal of granting the note issue privilege to but one central bank. It is obvious that some would revise our system with its law precedents and established customs by adopting an altogether different one; others would improve the law in order to meet new conditions. In considering the following proposals it is necessary to be very brief and we shall, therefore, confine ourselves to some of the plans suggested during the past decade. Nearly all of the proposals contain the element of branch banking and so this subject should be treated first. A great many claim that the establishment of branch banks under national law would tend to solidify and strengthen the banking interests. To some such a result would be most welcome, to others it would seem a

1. Dunbar "Economic Essays" pp. 236 - 37.

most deplorable state of affairs. It is urged that branch banks are common in all countries of importance except the United States and that their absence here is due to the prejudice aroused during Jackson's war on the Second United States Bank. This opposition grew out of a fear of the "money power". Among the arguments in favor of branch banking are: 1. From a banker's point of view it is more economical. Like other forms of business a consolidation simplifies the management, supervision and policy. 2. From the general public's point of view, it would tend to equalize rates on the theory that money distribution is unequal at the present time because the rate is not adjusted to the supply. In branch banking the interest rate will tend to seek a common level and place all borrowers on the same footing. The proof of this is found in the experience of Germany, Scotland, Belgium and Holland. 3. Bankers would have a greaterdiversity of loan fields and would not be as liable to have their loans in one or two lines of business. This would tend to make banking safer and reduce losses to a minimum.'

Most economists and banking students are advocates of this system. There is no doubt that branch banking would place capital where it is needed and it would relieve some of the western and southern sections from high money rates. Small bankers oppose it and it has been urged with no little weight that there would be a great practical difficulty in securing local managers who possessed banking knowledge as well as local experience. There seems to have been no such difficulty in other countries and it looks reasonable that a competent local manager would be just as available as are the directors who supervise the present village bank.

One of the oldest suggestions offered as a solution for inelasticity is the proposal to repeal the 10% tax on state bank issues. Ever since the passage of this prohibition tax state bankers have been fighting for its repeal and many of them still question the constitutionality of such a tax. Recently, Mr. E. F. Parker, President of the New York Produce Exchange Bank has been very active in arousing the state bankers of his state.[1] He insists that state banks are not getting a square deal and that they are just as safe and conservative as their national competitors. He would repeal the 10% prohibitory tax on state issue and allow state institutions to issue notes on approved security. He maintains that the critical condition of our finances at the time of the passage of the prohibitory tax is the only reason that the American people ever sanctioned it. If state and national banks were required to deposit bonds, it is evident that the government bond market would work more and more against the issue of bank notes. If the issue privilege of both state and national banks were not placed on the same basis there is no doubt that complications would arise which would not better conditions but rather cause a demand for more remedies.

Another proposal, which is trongly urged by Mr. Theodore Gilman in his book on "A Graded Banking System," would incorporate clearing houses under federal law. These associations beside their function of securing economy in the payment of balances would render a still greater service by issuing notes in times of financial crises. Circulating notes would be issued upon the deposit of marketable bonds, stocks, bills of exchange, promissory notes and other evidences of debt as collateral security.

1. Moody's Magazine, Dec. 1906. Vol. III No. 1, p. 83.

Mr. Gilman would incorporate clearing houses in the principal cities of each state and each association would be given the power to receive commercial assets from the banks of that state and issue notes to 75% of their (assets) par value. The amount alloted each bank should never be more than its capital stock. These notes would only be issued in case of emergency and would be guaranteed by the bank, by the clearing houses of the state and lastly by the clearing houses in the United States. The scheme is fully presented in Bill number 3338 which was introduced in the House of Representatives in 1896. Mr. Charles Parsons of the St. Louis State Bank said at that time (1896) that federal clearing houses empowered to issue $100,000,000 of currency in 1893 " would have saved one half or two thirds the ill effects of the panic." [1]

The advantages of incorporated clearing houses mentioned by Mr. Gilman are: 1. that safety would be insured by the actual pledge of approved security in the hands of the clearing houses which would act as trustees for note holders; 2. that conservative action on the part of the loan committee in accepting good collateral would be guaranteed on account of the contingent liability to which the members would be subject; 3. that the legal reserves of the banks would be kept intact in times of stress because they could resort to the emergency currency issue. As it is a slight loss of cash equal to 5% of the deposit liabilities will produce a monetary crisis. The scheme would establish a cooperative system as opposed to a competitive system and would alleviate the action of every individual bank striving to strengthen itself at the expense of its competitors.

1. Hearings of Committee on Banking and Currency on Currency Reform, 1898 - 99 p. 9.

The Mc Cleary Bill,[1] introduced in the fifty fifth Congress, second session, has given rise to much discussion and comment. The main provisions of the bill are as follows: It would leave the fiscal operations of collecting and disbursing revenues with the Treasury Department but would create a new division of Issue and Redemption. This division would keep all cash of the government in excess of $5,000,000 for the purpose of redeeming United States notes, Treasury notes and certificates. A new currency known as National Reserve Notes would take the place of the Greenbacks, these notes being issued to national banks upon the surrender of an equal amount of Greenbacks. Every national bank would be compelled to take the Reserve Notes to the amount of 25% of their capital stock. As compensation for the redemption of these Reserve Notes the Mc Cleary Bill would give banks the privilege of issuing notes upon general assets. The plan of issue can be better understood by the following illustration. Suppose a bank were capitalized for $100,000. By the McCleary Bill it would be required to take out at least $25,000 in bonds (present law) against which it might issue $25,000 in notes and an additional $25,000 upon approved commercial assets. This issue might be increased in proportion to the increase of bonds and reserve notes until the secured and unsecured notes and Reserve Notes were each equal to 40% of the capital. Thus a $100,000 bank might have $80,000 in bank circulation and $40,000 in Reserve Notes. Any issue above this amount would be subject to a tax of one half percent a month. Mr. McCleary would also authorize banks of sufficient capital to organize branches.

1. H. R. 9725. 55th Congress 2nd session "Hearings of Committee on Banking and Currency relating to change of Currency System.1898-99, p. 42.

The Currency Commission of the American Bankers' Association[1] on November 15, 1906 recommended a plan for currency revision which was introduced in the last Congress. It would modify the present banking system by the introduction of a graduated tax on so-called "credit notes." In brief their plan is this. A national bank which has been in active business for one year and which has a surplus equal to 20% of its capital shall be allowed to issue "credit notes" under the following restrictions. Banks may issue notes equal to 40% of their bond secured circulation but not to exceed 25% of their capital stock upon the payment of a $2\frac{1}{2}$% tax on such average circulation outstanding. In case the present proportion of unmatured United States bonds to the total capitalization of national banks shall diminish, credit notes shall be increased to a greater percentage of its bond secured notes. A further issue in excess of the amount first mentioned (equal to $12\frac{1}{2}$% of the capital) might be circulated subject to a 5% tax. The total bond-secured notes and credit notes shall at no time exceed the capital of the issuing bank. It is estimated that the right to issue notes equal to 25% of the total capital stock of national banks, would furnish ample emergency currency. Credit notes would be guaranteed by a gold redemption fund deposited with the Treasurer of the United States equal to 5% of the circulation (credit). Daily redemption would be provided through the agency of certain designated city banks. The bankers also demand that all government moneys above a working balance shall be deposited daily in national banks without the usual collateral requirement. Fisk and Robinson in their "Monthly Bulletin of Investments" for December

1. Report of The Currency Commission of the American Bankers' Association 1906.

give some interesting figures showing the additional profit which would accrue to national banks under this system.

Additional Profit to a National Bank with $100,000 capital and $62,500 Bond secured Circulation in taking out Credit Notes.

Incidental Conditions: Money Ruling at	Incidental Conditions: Required Reserve	2 ½ % Profit Red. on $25,000 bond	Credit Profit on $25,000 at 2½%	Notes Advantage	5 % Profit on $12,500 bond	Credit Profit $12,500 Credit 5%	Notes Advantage	Total Increase or Decrease
4%	15%	283	225	-58	141	200#	-341	-399
	25%	283	125	-158	141	#250	-391	-549
5%	15%	276	437	161	138	94#	-232	-71
	25%	-276	-312	36	-138	-157#	-295	-259
6%	15%	269	650	381	134	12	-122	259
	25%	269	500	231	134	63#	-197	34
7%	15%	262	862	600	131	119	-12	588
	25%	262	687	425	131	31	-100	325
8%	15%	254	1075	821	127	225	98	919
	25%	254	875	621	127	125	-2	619
9%	15%	246	1287	1041	123	331	208	1249
	25%	246	1062	816	123	219	96	912

"Actual Loss." In computing the profit from bondsecured circulation, due allowance has been made for a sinking fund to retire the premiums on bonds, and for the loss of interest on the premium invested.

Another proposal made during the past year is that of the special committee of the Chamber of Commerce of New York who suggested the creation of a central bank of issue. [1] This committee regards a central bank as being "the best means of providing as elastic credit currency, the volume of which could never be excessive." [2] This bank would be under the control of the Government and would have branches in all of the leading commercial cities of the country. It should have a capital of at least $50,000,000 and its stock might be owned by private individuals or by the various banks of the country. It would be a bank of banks and a fiscal agency for the government. At least a part of its board of directors should be appointed by the President of the United States thus establishing a close connection with the government. The bank would act as a national treasury and receive and disburse all public money through its various branches. As a central bank of issue, this institution would not necessarily take the note issue privilege away from National banks. Such a change, even though desirable at a later time, would tend to lower the value of United States bonds and would be unfair to the present national banks which own bonds, the face value of which in over $600,000,000 and whose market value is largely due to the requirements of the National Bank Act. The bank would, however, act as an agency in supplying necessary credit currency in an emergency. In its operations it should be "managed not exclusively for private gain but for the public good as well." [3] In the remainder of this paper, we shall consider the feasibility of this plan and the advisability of taking it up.

1. "The Currency" Report by Special Committee of Chamber of Commerce of New York. pamp. 1906, pp.9 and 10 and appendix p.28.
2. Ibid p. 9.
3. Ibid p. 9.

We shall note its various advantages and disadvantages as experinneced in Europe and in our own country.

Before taking up a discussion of the banking experience of various countries, we shall sum up, in brief, the advantages of central banks. This is well shown in the Committee Report of the New York Chamber of Commerce. The banks of England, France and Germany have been highly successful in satisfying both the needs of commerce and of their respective countries. It is commonly maintained that a great central bank is able, in times of stress, to prevent those sudden fluctuations in the rate of interest which, in the past, have proved so disastrous. The interest rate would be more steady and in case of extraordinary demands on industry, a bank with large resources, could at least prevent the present inflation and contraction of the currency. As an improvement in government finance a central bank would supplant the cumbersome sub-treasury system and the money of the country would always be at the disposal of the industry. This would alleviate the inflation and contraction now common in the receipts and expenditures of public money.

EXPERIENCE IN EUROPEAN COUNTRIES.

THE BANK OF ENGLAND. [1]

The Bank of England is the oldest of existing banks of issue. It may also be characterized as the most important of modern banks on account of its

1. Atfield. English & Foreign Banks.
Bagehot. Lombard Street.
Clare. Money Market Primer, part 1.
Clare. A.B.C. of Foreign Exchanges p. 104.
Conant, History of Modern Banks of Issue Chapt. 4 & 5.
History of Banking in all nations Vol II.
Dunbar. Theory & History of Banking.
Gilbert on banking, Vol. II p. 113.
Fiske. The modern Bank p. 279.
Gilman, A Graded Banking System p. 14.
Lawson, History of English & Irish Bnks.
Pal-grave. Bank Rate and the money market.
Syke. Bank'g & Currency Ch. IX & X.

peculiar position as the center of the world's banking systems. Situated in the heart of the international money market, due to England's enormous commerce, it has become the greatest distributor of the precious metals. "The old lady of Threadneedle Street", as the bank is often referred to, was established in 1694. England was at war with France and the English treasury was in a very depleted condition. In order to facilitate the necessary loans, William Patterson a London merchant, proposed that the Crown incorporate a large joint stock bank. This bank was to be given the exclusive right of note issue within a radius of sixty five miles from London. In return for this privilege the Crown was to be given a loan of 1,200,000 pounds. The monied men of the realm were very much opposed to the scheme because they feared that its success would mean a decrease of profit in the loan business. Many objected to the monopoly feature of the bank and declared that the country would soon be at the mercy of the money power. The more cautious feared that the bank would be tempted to give speculators an over-abundance of credit and so hamper rather than promote legitimate industry. Against this opposition was a strong party which urged that the Bank of England would relieve the government from financial embarrassment; that the rate of interest would be decreased and usurers would be driven out of business; the value of land would rise in response to the expansion of credit; and that the people would be brought in closer touch with the government. The bank bill was passed in Parliament on April 25, 1694 and King William immediately went to the House of Lords to give his royal assent.

Until 1844, The Bank of England enjoyed the note issue privilege with 72 joint stock banks and 207 private banks located in the country districts. Ever since the Bank was chartered, the public had complained that it and its associates were frequently tempted to overissue which brought on commercial crises. In answer to this universal objection of the people, Sir Robert Peel introduced a bill in Parliament the purpose of which was to limit the note issue privilege. [1] Under it no bankers were to issue notes payable to bearer on demand except such bankers as on May 6, 1844 were issuing their own notes. In case any country bank ceased the issue of its notes the Bank of England might increase its issue to the extent of two thirds of such elapsed issue. The Bank of England was divided into two departments: 1. The Issue Department and 2. the Banking Department. Securities to the amount of 14,000,000 pounds were to be placed in the Issue Department and notes were to be issued to this amount and transferred to the Banking Department. All notes issued beyond the sum of 14,000,000 pounds were to be secured by the deposit of gold and silver equal in amount to the excess. All profits on the issue of notes beyond 14,000,000 pounds were payable to the Crown. England has experienced the same evils of inelasticity as the United States, due to the above provisions, and during the years of crises in 1847, 1857, 1866 and 1873, the government was obliged to remove the note issue limit. At present the law governing the Bank of England is essentially the same as it was in 1844. The Bank has a central office at London and its branches are located in all parts of the Kingdom. It acts as the chief financial agent of the state and performs the ordinary functions of a government treasury.

1. Syke "Banking & Currency" p. 77 Bank Charter 1844.

[illegible]

[illegible]

[illegible]

[illegible]

The paid up capital of the Bank is larger than that of any other banking institution in the world. The capital is 14,553,000 pounds and the "Rest" or surplus is somewhere in the neighborhood of 3,000,000 pounds more, thus making the total capital about 17,500,000 pounds. The capital stock is invested in government securities and forms a basis for that part of the note issue which is not provided for by the deposit of bullion. The management of its affairs continues in private hands and it is the pride of all England that this Board of Directors decide their policy more in accordance with the public good than for private gain.

In a study of the Bank of England, it is well to consider the position of this great institution in the world's trade. As the center of the international money market it is constantly liable to sudden and large demands for specie for export. It practically holds the specie reserve of the entire country. It is a banker's bank whose main business is to receive deposits from other banks and to rediscount commercial paper and other forms of loans for its associates. On account of this great obligation to support the credit of depositing banks who in turn support the credit of their customers it keeps an enormous cash reserve.

The English law does not compel banks to keep cash reserves. However, experience has taught them that they must always have available a considerable amount of money. The country bank deposits in the city banks, the city banks in the London joint stock banks, and the London banks in the Bank of England. No interest is paid on deposits yet the banks find it advantageous to deposit a part of their funds at an available place upon which they can draw at any time. Such a system establishes a safe

and convenient means of making payments. Experience has taught the Directors of the Bank of England that they should keep a cash reserve of 40% or more of their aggregate deposits in order to have a safe supply for the ordinary demands of their customers. It is interesting to note how the Bank maintains its reserve. The Bank has her autumnal drain just the same as New York banks and she suffers a similar loss of reserve. It is at this time that the relation of the bank rate and the money market is conspicuous. Evidently the Bank charges its minimum discount rate on commercial paper of absolute security. Paper of inferior security is charged a proportionally higher rate. The general rate of discount is usually fixed for the week following by the Directors at their Thursday meeting. The rate rests, primarily, upon the nature of the reserve. If the reserve is too great in proportion to deposits, the directors publish a low rate which is apt to attract borrowers. On the other hand if the reserve is lowering, the rate is raised in order to encourage borrowing.

English banks have a common practice of rediscounting paper. Thus a bank whose loans are heavy will resell its papers to another at a lower rate and make a small profit without losing any funds. Their action (discounting banks) will depend primarily upon what the Bank of England does in the matter. When the gold current is against England, it is the practice of the Bank to raise the discount rate. This tends to make the export of gold unprofitable and encourages continental bankers to buy up London paper thus turning the exchange in favor of England. However, the Bank cannot use this weapon effectively unless the open rate- i.e. the rate charged by London bankers - follows the Bank rate.

This is due to the fact that London banks are the real competitors in bidding for bills of exchange. London bankers always find it to their advantage, however, to follow the Bank rate because the interest that they pay their depositors depends upon the official rate. The Bank might also enter the market as a borrower and force the open rate to follow its own.

The Bank of England does not provide the people with an elastic currency. Bankers who need gold for export will either draw gold on their account or present bank notes which are always redeemable in gold. The bank cannot issue notes above 17,500,000 pounds except by depositing gold equal to the excess. Consequently as gold is withdrawn from the country the notes in circulation are apt to be reduced together with the reserve. The Bank of England must then of necessity keep much gold in her vaults and the only way to accomplish it is by the Bank raising the discount rate. Recently when the Bank reserve had fallen to about 35% of the deposits the directors advanced the rate to 6%. This stopped the exportation of gold to the United States but it also proved a great discouragement to the London borrowerwho is used to a 2%, 3% and seldom 4% rate.

In the following table is shown the average note circulation of the Bank of England, in groups of ten years from 1845 to 1900. [1]

Years	Circulation	Bullion in issue Dept
1845 -- 54	# 20,061,000	#14,625,000
1855 -- 64	20,388,500	13,645,000
1865 -- 74	24,027,500	19,356,000
1875 -- 84	27,030,700	24,436,000
1885 - 94	24,883,400	22,883,000
1895 -- 1900	27,360,924	34,149,000
1845 -- 1900	23,726,100	20,613,000

The next table shows the average yearly Bank Rate from 1845 to 1900.[2]

1. "Bank Rate and the Money Market" Palgrave pp. 70 and 71.
2. Ibid p. 33.

Year	Rate	Year	Rate	Year	Rate	Year	Rate	Year	Rate
	f-s-d		f-s-d		f-s-d		f-s-d		f-s-d
1845	2-13-8	1856	6-1-2	1867	2-10-9	1878	3-15-8	1889	3-10-11
1846	3-6-6-	1857	6-13-3	1868	2-1-11	1879	2-10-4	1890	4-10-5
1847	5-3-6	1858	3-4-7	1869	3-4-2	1880	2-15-4	1891	3-5-2
1848	3-14-5	1859	2-14-7	1870	3-2-0	1881	3-10-0	1892	2-10-7
1849	2-18-7	1860	4-3-7	1871	2-17-8	1882	4-2-8	1893	3-1-0
1850	2-10-1	1861	5-5-4	1872	4-2-0	1883	3-11-4	1894	2-2-3
1851	3-0-0	1862	2-10-7	1873	4-15-10	1884	2-19-1	1895	2-0-0
1852	2-3-0	1863	4-8-2	1874	3-13-10	1885	2-17-7	1896	2-9-8
1853	3-13-10	1864	7-8-0	1875	3-4-8	1886	3-1-0	1897	2-12-8
1854	5-2-3	1865	4-15-4	1876	2-12-1	1887	3-7-0	1898	3-4-10
1855	4-17-10	1866	6-19-0	1877	2-18-0	1888	3-5-11	1899	3-15-0

THE BANK OF FRANCE.[1]

The Bank of France is also the offspring of Government financial distress. It was founded by Napoleon as a Government aid to the first Empire. In all its long history it has been a prop in French finances. During the years 1830, 1848, 1870 and 1871 it gave the government incalculable aid. It has always enjoyed an issue monopoly and this privilege was unlimited up to March 15, 1848. At that time the French legislature fixed the maximum note issue at 350,000,000 francs and made the notes full legal tender. On August 12, 1870 the limit was raised to 1,800,000,000 francs and finally on February 11, 1906 the present limit 5,800,000,000 francs was authorized. The Governor of the Bank of France recently said that this increase in issue had followed the demands of commerce and that whenever it became evident that more circulation was needed the French legislators upon the advice of business men approved an increase by legislative authority. In this respect we find the French system a great improvement over the more rigid and inelastic plan followed in England and the United States.

Like the Bank of England the French institution is a bank of banks. Its great conservatism gives it the enjoyment of an unshaken public confidence and French bankers look upon it as their chief help in times of financial panic. So successful has been the Bank's policy that France boasts of the steadiest money rate in the world. The Bank of France acts as the government's fiscal agent and conducts branches which perform the ordinary functions of banking in the various Departments.

1. Conant. History of Modern Banks of Issue Chapter III. Dunbar, Theory and History of Banking. Fiske, The Modern Bank. p 293. Gilman, A Graded Banking System p 22. History of Banking in all Nations Vol. Palgrave. Bank Rate & Money Market. p. 140. Report Special Committee N. Y. Chamber of Commerce, Appendix.

The French Bank statute seems to appreciate the proper function of credit. The Bank is subject to the following rules in respect to loans. Credit can be given only upon bills maturing within three months and secured by three signatures or two signatures with a guaranty of a deposit of securities; or by advances on proper securities or bullion and money. The Bank always keeps an enormous reserve and the circulation not covered by this cash reserve is really limited to the satisfaction of demands for discounts. Thus circulation varies with commercial operations and France enjoys a stable rate of interest.

The Bank has been an important factor as a support for railway enterprises not only in France but also abroad. Whenever an American railway company is in need of a great loan it can usually receive accommodation at Paris. French railways have experienced similar reverses to those in the United States. At a time (1858) when railway companies were being floated in nearly every Department the stock of the new companies, which had not yet had time to complete their lines, had fallen very low. A syndicate of these unfortunate roads appealed to the Bank for assistance. A contract was signed between the parties by which the Bank opened a credit in favor of the railways upon the deposit of their stocks. The Bank also agreed to act as railway brokers and sell the stock in the market at a fair price. The contract was carried out to the letter. Over 240,000,000 francs of stock were sold and its market price rose from 260 francs to 290 francs within a year. For this great service the Bank received as interest on advances about 449,600 francs - a small sum when compared with the profits of the American underwriter. No Bank has ever withstood a

[illegible]

more severe strain than did the Bank of France during and after the Prusso-Franco War (1870.) The Bank supported the government at the outset. Four days after hostilities were voted the Bank advanced 50,000,000 francs to the Government. Other advances up to the close of the war made a total of 1,470,000,000 francs. During the war the Bank had never asked for the suspension of specie payments although this step was taken by the Government, August 12, 1870, in order to keep the gold in the country for use in case of military necessity. At the close of the war the Bank took part in the most remarkable transaction in the history of foreign exchanges, namely: the payment of a $1,000,000,000 indemnity to Germany. This indemnity was payable in installments and The Bank advanced 1,530,000,000 francs to enable the Government to meet its first payments. Public loans were placed for about 6,000,000,000 francs through the agency of the Bank of France. These loans were over-subscribed and brought out the hoards of French peasants and small shop keepers. Thus the loan sales not only freed France from German troops but also swelled the monetary circulation so that the Bank of France within a few years held a coin reserve nearly twice as large as it had ever accumulated before. Another incident worthy of mention at this point, is the fact that foreign securities on the Paris market declined greatly due to the Frenchman's desire to transfer his capital into Government securities. The decline of these international securities resulted in a flood of foreign money coming to Paris in order to take advantage of the reduced prices of "the internationals."

The most important function of the Bank is its note issue. In late years the practice of making commercial discounts has been increasing,

especially the rediscounting business. The rate of discount was, for many years, kept at approximately 4%. In the following table is shown the principal items of the bank's accounts from 1845 to 1895.[1]

Year	Mean Circulation	Mean Metallic Reserve	Total Discounts	Mean Discount Rate
1845	268,800,000fr	271,200,000 fr	1,399,300fr	4.00
1848	347,800,000	176,200,000	1,537,400	4.00
1850	495,500,000	457,800,000	1,171,000	4.00
1855	644,400,000	340,500,000	3,765,200	4.44
1860	736,400,000	513,500,000	9,964,700	3.63
1865	843,800,000	439,600,000	6,030,200	3.72
1870	1,566,400,000	1,130,700,000	6,627,300	3.99
1875	2,464,900,000	1,541,100,000	6,826,700	4.00
1880	2,311,400,000	1,974,500,000	8,696,800	2.81
1885	2,891,600,000	2,150,700,000	9,250,100	3.00
1890	3,076,600,000	2,476,700,000	9,549,700	3.00
1892	3,186,300,000	2,785,300,000	8,415,700	2.50
1893	3,423,000,000	2,895,300,000	8,922,200	2.50
1894	3,495,000,000	3,127,700,000	8,725,600	2.50
1895	3,484,900,000	3,202,900,000	8,621,900	2.00

1. Conant. "History Modern Banks of Issue," p. 75

THE IMPERIAL BANK OF GERMANY.[1]

German bankers boast that they have the best banking system and base their opinion on the fact that they have profited by the financial experience of other countries. The Reichsbank is the latest institution of its kind. It was formed in 1875 with the purpose of unifying the banking system of the empire under the leadership of a strong central bank. It was considered a needed defence in case of a depleted Treasury and its chief exponent declared it to be the last in German nationalization. The Bank of Prussia occupied a formidable position making it a natural center. It had been established in 1765 and was governed largely by a Board of Directors who received their appointment from the state. Prussia was a chief stockholder and shared in its profits. There were also other strong banks in the various German states and thirty three of them enjoyed the right of note issue. These banks were unregulated and there was not a single characteristic of uniformity in the entire system. So, as preparatory to central bank issue, the government took up the note issues of the various states in 1874 and replaced them with uniform Treasury Notes. The power to grant note issue privileges was taken away from the states and transferred to federal authority. By the law of 1875 note issue was apportioned between the Bank of Prussia and the other thirty three banks of issue. The rather stringent requirement of high capitalization for banks of issue has reduced the number of issuing banks to five : The Reichsbank, Bank of

1. Conant. A History of Modern Banks of Issue. Chapter 8. Dunbar, Theory & History of Banking. Fiske, The Modern Bank, p. 288. Gilman, A Graded Banking System, p. 31 History of Banking in all Nations Vol. 3. Palgrave, Bank Rate and Money Market p. 155. Quarterly Journal of Economics Vol.14 Sound Currency Vol. 5. No. 21. Special Committee of New York Chamber of Commerce, Appendix.

Bavaria, Bank of Saxony, Bank of Wurtenberg, and the Bank of Baden.

The German Bank note is not legal tender and the issuing bank is legally bound to redeem its notes in coin on demand. "All notes which anyone of the five banks may issue, must be covered by coin and gold bars, or by bills of exchange having not more than three months to run, but the restrictions whereunder the Reichsbank may discount bills are very severe and under no circumstances must the coin and gold held be less than one third of the total circulation." [1] A much larger reserve is always held. For instance the Managing Director of the Disconto Gesellschaft, Belin says: " The most unfavorable condition existed on September 30, 1905, but even then the available funds, consisting of coins and government notes, constituted 45.3% of the actual amount of notes in circulation." [2]

German banks of issue are required to pay a tax to the Imperial Exchequer " when their circulation exceeds the amount of coin and gold held plus an arbitrary amount fixed by experience at about $2.00 per capita of Germany's population." [3] This arbitrary amount is known as the "Kontingent" and the apportionment to each bank at present is as follows: [4]

Name	Kontingent	
Reichsbank	472,829,000	Marks
Bank of Bavaria	32,000,000	
Bank of Saxony	16,771,000	
Bank of Wurtemberg	10,000,000	
Bank of Baden	10,000,000	
		(approximately)
Total	541,600,000	$130,000,000

1. "The Currency" Report Special Committee Chamber of Commerce N.Y. 1906. Appendix p. 37.
2. Same - Appendix p. 40.
3. Same - Appendix p. 37.
4. Same - Appendix p. 37.

This tax is similar in principle to the graduated tax proposed by the Special Committee of the American Bankers' Association. Whenever any of the five banks increase their issue over the apportioned amount, they are required to pay 5 % on the excess into the Imperial Treasury. The tax is payable by forty eights. Thus whenever the weekly balance sheet shows an excess the tax is five forty eights percent on the over issue. The Managing Director of the Deutche Bank, Berlin thinks that," this stipulation which when introduced was quite new and an experiment has proved a decided success."[1] The following table shows the excess of circulation over the arbitrary "Kontingent" of the Reichs bank since 1876.[2]

(Thousand Marks)

Year	Overissue	Year	Overissue	Year	Overissue
1876		1887	34,161	1898	737,199
1877		1888	None	1899	1,850,325
1878		1889	None	1900	2,733,402
1879		1890	226,528	1901	2,417,139
1880		1891	325,082	1902	336,577
1881		1892	None	1903	459,157
1882	26,092	1893	None	1904	773,057
1883	31,409	1894	38,518	1905	1,584,963
1884	None	1895	None		
1885	32,679	1896	215,086		
1886	2,615	1897	446,209		

1. "The Currency" Report Special Committee Chamber of Commerce New York, p. 37

2. Same p. 48

Germany has her seasonal demands for money which occur in the latter part of September (harvest time) and the last of December when the accounts of individuals and corporations are settled. Obviously when the banks are led to over-issue the discount rate is advanced. The Reichsbank rarely has to pay the tax for more than a week. The highest rate published by the Reichsbank during its thirty years of existence was from December 19, 1899 to January 1, 1900 when the rate was 7%. The official bank discount rates have averaged as follows:[1]

Five year periods.

Years	Rate
1876 - 1880	4.172%
1881 - 1885	4.225
1886 - 1890	3.641
1890 - 1895	3.461
1896 - 1900	4.420
1901 - 1905	3.859

The advantages of the Reichsbank to German commerce and trade may well be summed in the words of Arthur Salomonsohn, Managing Director of the Disconto Gesellschaft,, Berlin:[2] "The Reichsbank satisfies any increase in the demand for money out of its own resources by enlarging its issue of notes even to the extent of incurring the penalty prescribed by law in the event of an over-issue; while on the other hand by the control of its rate of discount it prevents undue expansion of its circulation.

1. "The Currency". Report of Special Committee of Chamber of Commerce. New York, p. 41.

2. Same p. 42.

Through the regulation of its discount rate it exerts a controlling influence upon domestic business affairs and upon the international movements of gold. The Reichsbank guards the German monetary system against outside interference and encourages or hinders by means of its discount policy the inflow or outflow of gold. The Bank maintains under all circumstances an adequate stock of gold, from which at all times foreign demands can be met without in any way affecting the integrity of the monetary system."

AMERICAN CENTRAL BANK EXPERIENCE.

We have seen that a central bank with certain monopoly features is regarded by Europeans as the best means of supplying the proper credit machinery. Experience seems to favor the operations of these banks in their respective countries. There are many institutions thriving on foreign soil, however, which the average American citizen will not tolerate at the present time. The American scheme of government is democratic and from its very conception the fathers tried to avoid any approach to the old monarchial practices. Hence, politically, a vast majority of the people have rather feared the suggestion of any agency so powerful as a central bank. The United States has had two banks similar in character to the central banks of Europe, and each was given up after a bitter political struggle.

THE FIRST BANK OF THE UNITED STATES. [1]

Alexander Hamilton, the first Secretary of the Treasury was a great friend of centralized government. In the framing of the constitution and at all other times he showed a desire to make the federal government strong and effective. When he set about to frame a national financial policy one of his pet schems was the creation of a National Bank. During the first years public credit was very weak. There had been no system or regularity in the fiscal policies of the various states and their finances were in a deplorable condition. Over the new government hung a great war debt which Hamilton felt must be met if the states would win the respect of nations. In a paper submitted to Congress, December 13, 1790, he proposed the establishment of a strong bank as a measure for improving the existing fiscal conditions. He urged that a central bank would be a great vault in which would accumulate innumerable individual deposits which when concentrated could be put to use in an effective manner; this would increase the actual capital of the country by making it possible to issue paper money with safety and uniformity and industry would flourish on account of the credit supplied; with its ample capital it would make it easier for the government to obtain loans; the individual would find it easier to pay his taxes and he would have a greater opportunity to borrow necessary capital; there would also undoubtedly be an increase in the circulation of money.

1. Clarke & Hall. Legislative and Documental History of the United States. pp. 15. 85. 116.
   Conant. History of Modern Banks of Issue. Chapter 13.
   Dewey. A Financial History of the United States. pp. 98, 160.
   Fiske, The Modern Bank p. 36?.
   History of Banking in all Nations. Vol. I.
   Sumner. History of American Currency.

Throughout the country there was considerable opposition to any form of bank and Hamilton in defence of his policy showed how banks "help the industrious and honest men by furnishing them capital." In reply to the argument for government issue of paper money Hamilton urged the generally accepted objection, namely: that a government cannot well supply the demands of trade and it is often tempted to over- issue in times of financial distress. Hamilton's idea of bank currency may well be summed up in the following passage; " Gold and silver, when they are employed merely as instruments of exchange and alienation have been, not improperly, denominated dead stock; but when deposited in banks to become the basis of paper circulation, which takes their place as signs or representatives of value, they then acquire life, or in other words, an active productive quality."

Hamilton's proposal met with strenuous opposition when it was discussed in the House of Representatives. Madison questioned the constitutionality of the measure and declared the Constitutional Convention had neglected to give Congress the power to incorporate because the framers feared that it would give Congress the power to incorporate a bank. This always occupied the most attention in debates over the Bank. Many distrusted the Bank on the ground that it would become a great money power which would pit the rich against the poor and thus defeat the vital purpose of a democracy. There was also a sectional feeling that the city with its diversified industries would profit at the expense of the agricultural interests. This opposition came from the southern planter who complained that only federal stocks were to be used in subscribing to the stock of the Bank and the North possessed the most of them.

The Charter passed the House on February 25, 1791, by a vote of 39 to 20. It is interesting to note that three votes north of the Potomac were against it and three votes south of the Potomac favored it. The First Bank of the United States was chartered for twenty years, and was located at Philadelphia. The charter provided for a capital stock of $10,000,000 of which one fifth was to be subscribed by the government. The remainder of the stock was open to American or foreign citizens but no foreigner was to act as a director and only American stockholders could vote by proxy. One fourth of the stock open to popular subscription was payable in specie and three fourths in government securities bearing 6% interest. No private subscription was to exceed one thousand shares. The Bank might begin operations after $400,000 in gold and silver had been paid in and Congress was to charter no other bank.

The management of the institution was given to twenty five directors, seven of whom constituted a quorum to transact business. One fourth of the directors were elected annually. One share entitled the holder to one vote; three shares to two votes etc. The maximum rate of interest to be charged was placed at 6%. No real estate (except banking house) was to be owned except that received through foreclosure; it was also forbidden to buy or sell goods except forfeited collateral. The United States Government could never borrow more than $100,000 from the Bank unless sanctioned by an act of Congress. Foreign powers were never to be favored with a loan. The Bank might buy but could not sell government bonds.

When the subscription books were opened the stock was over-subscribed by four thousand shares within two hours. The Bank began operations on

December 12, 1791. Soon afterward eight branches were established at Boston, New York, Washington, Norfolk, Charlestown, Savannah and New Orleans.

There are no official records which give any idea of the Bank's business during its charter existence. Secretary Gallatin said that the Bank was merely called upon to make " a general statement" of its affairs. This undoubtedly grew out of the old idea that all banking business should be held secret; for the Secretary was given the power to inspect the books of the Bank and call for weekly reports from the officials. There exists but one detailed report to Secretary Gallatin. This was made in January 1811 and shows the following:

Discounts $14,500,000; Loans to the United States $2,700,000; due from other banks $900,000; Cash $5,000,000; private deposits $6,000,000; public deposits $2,000,000; bank deposits $200,000; and circulating notes $5,000,000.

As an assistant to the government, the Bank did invaluable service. It first loaned the government $2,000,000 and followed this by other loans made in anticipation of taxes. By 1796 the government owed it $6,200,000. On account of financial pressure the Bank demanded payment and the government was compelled to sell part of its bank stock in 1796 and 1797 and in 1802 the United States parted with the remainder of its holdings. At that time the bank stock was at a premium and the Barings resold some shares at as high as 150 in London. The total premium obtained by the government on its five thousand shares was $671,860. During the time it held the stock it received $1,101,720 in dividends. One of the most important fiscal advantages of the Bank was the caring for public funds.

The principal source of national income was the customs duties which were collected at various ports miles apart. There were few local banks which could have been used as depositories during the first years of the government. However, towards the close of the bank's career this advantage was partly eliminated in-as-much that eleven local banks had the custody of at least one third of the public funds in the year 1811.

Notwithstanding the large advances made to the government and the beneficial work of the branches there was strong opposition to the recharter of the Bank. Public opinion was opposed to the so-called bank monopoly. This is well expressed in a letter written by Jefferson to Gallatin as early as 1803 in which he said: " I am decidedly in favor of making all banks republican by sharing deposits amongst them in proportion to the dispositions they show." The Bank charter expired in 1811 and the stockholders petitioned for a renewal in 1808. Up to this time the Bank had paid an annual dividend of over 8% and hence was very popular with its owners. Secretary Gallatin was a strong adherent of the Bank and gave its advantages in a report to Congress on March 9, 1809. He claimed that it aided the government as a safe depository for public monies; by transferring national funds, by collecting reserves and furnishing loans. The opposition contended that the Bank was largely owned by foreigners (two thirds of stock) and that it had used its power to further the interests of political allies so that discounts were given to favorites rather than the public in general. Atwater's pamphlet - a paper on "Considerations on the Dissolution of the United States Bank" - declared that "one bank like that of the United States will destroy the industrious habits of one thousand families annually.

Think of the locusts of Egypt. These were to the people precisely what banks are to the farmers." In Congress there was an echo of these warnings. State bankers had implored their representatives to defeat the recharter measure.On account of a misunderstanding in regard to Federal appointments in Philadelphia, William Duane and Micheal Lieb because enemies of Gallatin and with the help of Secretary of the State Smith and his following began a vigorous campaign against the Bank. Gallatin was ably represented in the Senate by W. H. Crawford of Georgia. In a debate Senator Crawford maintained that foreign stockholders had no vote and that should the Bank go into liquidation a vast amount of coin would leave the country. The House was particularly sensitive on the subject of the constitutionality of the Bank and on January 24, 1811 voted against recharter by a vote of 65 to 64. In the Senate the vote resulted in a tie. (February 20,1811) and Vice President George Clinton, an enemy of Gallatin, cast the deciding vote against the bill.

When it became certain that Congress would not grant a new charter, the stockholders applied to the legislature of Pennsylvania. They were unsuccessful and the Bank began winding up its affairs. The soundness of the institution is evidenced by the fact that after all liabilities were paid the stockholders received four hundred and thirty four dollars for every four hundred dollar share.

Local banks were chosen as government depositories and within a year the cash balance of the Treasury was deposited with twenty one banks. No financial disturbance was evident during liquidation. Soon came the second war with Great Britiar. It was utterly impossible to transfer funds from one part of the country to another to any advantage because state bank

notes only circulated in a limited locality. Added to this was the suspension of specie payments in 1814. As a remedy for the difficulty, Dallas who succeeded Gallatin - recommended a new national bank similar to the First United States Bank. He was strongly opposed by Daniel Webster who favored the establishment of a bank for commercial purposes rather than one with dominant administrative influence. Webster's proposal passed the House by a vote of 120 to 38 and the Senate by 20 to 14 but was vetoed by the President on January 30, 1815.

When Congress met the following December President Madison recommended a national bank in his annual message. It is interestin to note that Mr. Madison opposed the First United States Bank on constitutional grounds but the great clamor for the resumption of specie payments seems to have cleared away his former objections. Calhoun, another strict constructionist, was one of the advocates in favor of a new bank. The most prominent opponent of the bill was John Randolph who said in a speech: " A bank would be an engine of irresistable power in the hands of any administration; it would be in politics and finance what the celebrated principle of Archimides was in physics. - a place, a fulcrum from which at the will of the executive the whole nation could be hurled to destruction." Clay changed his former views and supported the bill on the ground that a bank was necessary to treasury operations. On March 14, 1816 the bank bill passed the House by a vote of 80 to 71; later it passed the Senate and was signed by the President on April 10, 1816.

THE SECOND UNITED STATES BANK. [1]

The Second Bank of the United States had a capital of $35,000,000 of which one fifth was to be subscribed by the Government in money or its own bonds; three fourths of the remaining capital was payable in the funded debt of the United States. Its charter had a twenty year duration during which time no similar institution should be authorized by Congress outside of the District of Columbia. The Government was to be paid a bonus of $500,000 annually for three years after the end of the second year as a return for the charter privilege. The bank was also required to transfer the public funds without commission. Public money was to be deposited with the Bank unless the Secretary of the Treasury deemed it best to deposit elsewhere in which case he was required to give proper reasons to Congress immediately. There were to be twenty directors chosen by the stockholders and five (from stockholders) additional appointed by the President. Only United States stockholders could vote by proxy. Reports of the Bank's condition might be demanded by the Secretary of the Treasury not oftener than once a week and the President of the United States was given the power to issue a writ of "scire facias" requiring the Bank to show why its charter should not be forfeited. Note issue was limited to the amount of the capital stock and the Government of the United States would receive United States Bank Notes as legal tender in the payment of debts.

1. Catterall. The Second United States Bank.
Conant. History of Modern Banks of Issue. Chapter 13.
Clarke & Hall. Legislative and Documental History of the Bank of the United States.
Dewey. A Financial History of the United States. pp. 144, 198.
Fiske. The Modern Bank, p. 302.
History of Banking in all Nations. Vol I.
Sumner. History of American Currency.

The Bank began business on January 7, 1817 under questionable circumstances. During its first years it was badly managed and was at the brink of insolvency. Instead of the $7,000,000 required to be paid in specie, only about $2,000,000 was received and the personal notes of stockholders were taken instead of the legal Government securities. There was an active speculation in bank stocks and it is charged that even the president and other bank officials were implicated in this greedy procedure. Loans were made on the United States Bank stock as collateral and many stockholders received dividends before paying in the requisite subscription. The eighteen branches of the Bank locked up the notes of local banks and charged interest upon them and thus oppressed state banks instead of cooperating to restore bank credit. The western branches expanded their discounts by an endless chain method of issuing drafts upon one another. After two years the branch at Baltimore collapsed with a loss of $3,000,000 due to reckless management and illegal operations. Congress became alarmed and a bill was introduced in January 1819 to set aside the charter. There is no doubt that this would have been done had not the stockholders tactfully elected Langdon Cheves as President of the corporation. Mr. Cheves was a conservative business man and he at once proceeded to put the Bank on a safe footing by borrowing $2,500,000 in specie from the Barings in London. He forbade southern and western branches to issue notes when the exchanges were against them. This had the beneficial effect of preventing overissue. During the four years of his administration Mr. Cheves pursued a safe policy which was greatly to the advantage of Commerce and the Government. Senator Smith of Maryland in 1832 claimed that " it (The Bank) furnished a currency as safe as silver, more convenient, and more valuable than silver." The rates of

domestic exchange were appreciably reduced by the Bank at a time when the means of communication were inefficient. The Government was also provided with a servicable organization of depositories. An illustration of the bank policy of Mr. Cheve may be found in the following table: [1]

	Year	Circulation	Loans
	1817	$ 1,911,000	$ 3,485,000
	1818	8,339,000	41,181,000
Cheves	1819	6,563,000	35,786,000
	1820	3,589,000	31,401,000
	1821	4,567,000	30,905,000
	1822	5,578,000	28,061,000
	1823	4,361,000	30,736,000

The constitutionality of the Bank was passed upon by the Supreme Court of the United States in the celebrated case of Mc Culloch against Maryland. In 1818 the Maryland legislature imposed a tax on the notes of the United States Bank and its branches. The Cashier, Mr. McCulloch refused to pay the tax and the case finally reached the Supreme Court. Chief Justice Marshall in delivering the opinion (1819) laid down the rule that the power to create a national bank, to assist in the Government's fiscal policy, was within the implied powers of the Constitution. He declared that the Constitution of the United States did not prohibit the states from taxing the real property of the Bank within the state but it did imply the power to take away from states the right to tax an instrument of government.

1. Dewey. "Financial History of the United States." p. 153.

Ohio also attempted to tax the notes of the United States Bank. In the case known as Osbourne et al against the United States Bank (1824) Chief Justice Marshall reiterated his former decision and said the United States Bank was created for a national purpose. Following these precedents all United States securities have been non-taxable except by express consent of Congress.

Although the bank had received the sanction of the Supreme Court, it was still confronted by its old enemies. After the successful administration of Cheves, Nicholas Biddle assumed the presidency in 1823. When Mr. Biddle took charge the Bank had a circulation of some $4,300,000; specie $4,400,000; public deposits $2,700,000; private deposits $3,300,000; loans $30,700,000; and United States bonds $11,000,000.[1] By 1825 the active capital had been increased by the sale of from $3,000,000 to $4,000,000 of stock which had been received as collateral on stock exchange operations.[2] An unfortunate action on the part of the Board of Directors occurred soon after this change of policy. It was urged that the branches openly evaded the law by issuing drafts to circulate as money. This operated as an unfair competition with state bank issues and also contained an element of inflation. These drafts in denominations of $5, $10 and $20 were in common circulation in the south and west and were accepted in payments to the United States Treasury. The branch drafts outstanding in April 1832 were $7,410,000.[3] It is interesting to note that there was but little United States bank circulation in New England during the career of the Bank.

1. Journal of Commerce and Commercial Bulletin " A History of Banking in all Nations Vol I p. 183.
2. Same p. 185.
3. Journal of Commerce and Commercial Bulletin " A History of Banking in all Nations Vol. I p. 186.

The following table shows the distribution of the Bank's circulation in 1818, 1823 and 1832. [1]

Section	Sept. 30, 1819	Jan. 2, 1823	Apr. 4, 1832
New England	$ 518,000	$ 393,000	$ 901,000
Middle States	969,000	868,000	5,478,000
South	3,960,000	2,281,000	5,311,000
Southwest	670,000	744,000	5,637,000
West	817,000	45,000	5,131,000
Total	6,934,000	4,331,000	22,458,000

An open war on the Bank was begun by President Jackson in his first annual message to Congress in 1829. His statements fell as a great surprise to the financial world which recognized the Bank as being of great value notwithstanding the petty quarrels at various local points. Jackson charged the Bank with being inefficient in providing " a uniform and sound currency" and said that the majority of the citizens of the United States were still doubtful as to its constitutionality. His complaint was due to the dissatisfaction of Isaac Hill, a New Hampshire politician,who claimed that the branch in his state had shown partiality to the opposing party. Biddle denied that the Bank had any favorites and even declared that the Board of Directors acknowledged no responsibility to the Secretary of the Treasury and that it was in no way under executive control. It seems that Mr. Biddle over-looked the fact that public deposits might be withdrawn.

1. Dewey "Financial History of the United States." p. 153.

The effect of President Jackson's hostility to the Bank was soon evident for its shares of stock fell from one hundred and thirty to one hundred and sixteen after the annual message of 1829. Both houses of Congress left the charge against the Bank to Committees. On April 30, 1830 McDuffie made a report in which he defended the constitutionality of the Bank and exonerated it from the charge of bad management. In the Senate, Smith reported from the Committee on Finance in favor of the Bank and its policy and dwelt especially on the national character of United States Bank Notes. The House, on May 10, 1830 tabled a resolution not to renew the Bank charter by a vote of 89 to 66 and on May 29th it tabled resolutions calling for a detailed report of the procedure of the Bank. There was also a similar sentiment in the Senate. As a result of this vindication, Bank stock rose to one hundred and thirty. In his messages of 1830 and 1831, the President was mild in the criticism of the Bank and the Secretary of the Treasury in his annual report in 1831 made a strong argument in favor of it.

Jackson's hostility was renewed by the political tactics of Henry Clay who as a presidential candidate wished to make recharter a national issue. Clay wanted the support of the financial men of the country and really forced the issue upon Jackson. It has been said that had it not been for this political strategy it is probable that the administration would have given up its opposition to a recharter. Biddle and other bank officials tried hard to avoid making recharter a party issue but they were forced to join Clay or be without political friends. In the Presidential campaign Jackson was re-elected by a vote of 219 electoral votes to 49 for Clay and 18 for all others. This result decided the fate of the Bank.

Jackson now had the support of the public more firmly than ever and he made definite plans to fulfill the party's pledge. On January 9, 1832, Dallas introduced a bill for a renewal of the charter in the Senate and McDuffie presented a similar resolution in the House. This resulted in a contest between the friends of Clay and the adherents of Jackson. Both Houses passed the bill but the President promptly vetoed it. (July 10, 1832). Congress was unable to overcome the President's veto and stubbornly refused his recommendations that the government go out of the banking business.

In order to use his power, the President was obliged to change his Secretary of the Treasury Mr. McLane, who was a friend of the Bank, as was his successor William J. Duane. Taney, however, upon assuming the office acted in accordance with the President's wishes. Then began the removal of public deposits from the Second Bank of the United States. On September 26, 1832, the new Secretary issued an order directing the deposit of public money in certain state banks - later styled Jackson's "pet banks". The removal of funds was done through the issue of drafts on the Bank for the ordinary expenditures of the Government. It is unnecessary to dwell upon the various arguments against President Jackson's action in this matter. It is sufficient to say that the President had won his point and that this determined definitely the recharter of the Bank.

The Bank of the United States obtained a charter from the state of Pennsylvania on February 18, 1836 for thirty years. The shares owned by the United States were paid in full in four installments at the rate of 115.58. The capital was kept intact at $35,000,000 but this proved by far too large for local needs. The management began to branch out into loans of uncertain value and its losses were enormous during the crisis of 1837.

It was compelled to suspend with the banks during the panic and finally in 1841 went into liquidation. All of its creditors were paid in full but the stockholders lost the entire capital stock.

The principal items of the Second Bank of the United States from 1820 to its final suspension are shown in the following table: [1]

Year	Loans	Deposits	Circulation	Specie
1820	$31,401,158	$ 6,568,794	$ 3,598,481	$ 3,392,755
1830	40,663,805	16,045,782	12,924,145	7,608,076
1834	54,911,461	10,838,555	19,208,379	10,039,237
1835	51,808,739	11,756,905	17,339,797	15,708,369
1836	59,232,445	5,061,456	23,075,422	8,417,988
1837	57,393,709	2,332,409	11,447,968	2,638,449
1838	45,256,571	2,616,713	6,768,067	3,770,842
1839	41,618,637	6,779,394	5,982,621	4,153,607
1840	36,839,593	3,338,521	6,695,861	1,469,674

Before leaving the subject of the Second Bank of the United States it might be well to examine some of the charges brought against it. The whole truth of the Bank's affairs is not known and this shows clearly the inefficiency of its supervision. It was charged that the Bank had asked discount and exchange rates which exceeded the 6% limit. This violation was undoubtedly true and indicates the practice common among bankers, even at present, of avoiding the usury law. During its existence the Bank was at times obliged to take realestate from its debtors. This property was

1. Conant "History of Modern Banks of Issue" p. 307

often improved and rented. As a matter of business expediency, it is conceivable that a bank may hold property for a better market in order to protect its stockholders and creditors. On two occasions the Bank subscribed to the stock of turnpike companies. This was a practice of dangerous possibilities and cannot redound to the credit of the Bank's policy. There was also a complaint that the Bank was subsidizing the press. This objection was met by a counter-charge that state banks had forced the practice. Whatever may be the truth of the controversy, the fact remains that a strong money power can never control the press completely. Americans should feel enough confidence in their institutions to discredit the idea that a central bank or any group of banks could ever control a free press effectively. It is natural to expect that favoritism would exist in a central bank. Friends of the Bank would undoubtably be given credit in preference to strangers. No human law can ever alter this condition.The evil is evident when one man or group of men receive unreasonable loans in proportion to their collateral. The proper exercise of lending money in such a case depends, primarily, upon the personnel of the management. That the Second United States Bank made unsafe loans to a cousin of its President is very probable. On October 15, 1830 Mr. Biddle had $1,131,672 on the Bank's funds at 5% interest. There is no proof that this loan was not properly secured. If it was not, the fault lay with the officers rather than with the Bank as a central institution. An important charge against the Bank was that between September 1, 1831 and April 1, 1832 the note circulation had expanded $1,300,000 while its discounts were appreciably reduced the Congressional investigation showed, however, that there was on hand some $9,640,000 in cash to meet $42,600,000 in liabilities. This

looks bad on the face of it but the condition of banks at that time would warrant the assertion that very few were able to make a better showing.

Jackson's strong objection that the Bank did not provide "a uniform and safe currency" is hardly accepted at present. On page 53 of this paper is a table which shows that the Bank was of little influence in New England where the banks were practicing a sane note issue. There is no doubt, however, that the south and the west were greatly helped by the stability of the United States Bank notes. The strong opposition in these sections came not from the people themselves but from the state banks which were eager for government deposits and desired to expand their own note issues. The serious evils of the state bank issue are common knowledge. Beside the lack of uniformity of issue and the possibility of "wild cat" banking, counterfeiting was made easy on account of the numerous forms in circulation. In 1862 there were counterfeits on the notes of two hundred and fifty three banks and the best known bank currency was at a discount of from 1% to 15% in business centers. The notes of the Second United States Bank, on the other hand, circulated at par and were always redeemable at the various branch counters. There is no doubt that the south and west were benefited through the guidance of the Bank note issue.

The Bank also made an enviable record in the management of the public funds. The policy of President Biddle was to consider the embarrassments incident to the withdrawl of a large amount of public funds from the channels of trade. His action in trying to adjust the payment of public dues in accordance with the condition of the money market is now thought essential by our best financiers. It has been a great problem for the Secretary of the Treasury to do this under the sub-treasury system.

The effect of the defeat of the Second United States Bank is shown by the phenomenal growth of state banks. They grew up like mushrooms. In 1837 there were 788 state banks with a capital of $291,000,000, $140,301,038 circulation, $127,000,000 deposits, and $525,000,000 loans and discounts. By 1840 there were 901 state banks and branches with $106,968,572 circulation. [1] No doubt this growth was partly stimulated by the administrative hostility of the United States Bank and the hope of securing Government deposits. Then followed the panic of 1837 and the suspension of specie payments due to an inflated credit system. Later, in 1846, the independent treasury was inaugurated and it has since served as the receiving and disbursing agent of the United States Government.

C O N C L U S I O N.

In the foregoing sections we have discussed the relative merits and defects of the American and European banking systems. American bank currency is safe and uniform. French and German bank currency not only has these essential qualities but is also elastic and responds to the legitimate demands of commerce and industry. American bank note issue depends, primarily, upon the investment conditions of government securities and therefore operates under the uneconomic principle of allowing the rise of public credit to hamper the extension of bank credit. Consequently trade suffers the most at the very time when proper credit facilities should give it the greatest help.

The public moneys of the United States - except those customs duties and internal revenues deposited with national banks upon approved security - are kept in a sub-treasury and its branches. The public

1. Dewey. "Financial History of the United States." p. 225 table.

moneys of Europe are deposited in the great central banks which act as the fiscal agents of their governments. The result is that American industry suffers whenever any large treasury receipts or disbursements occur while European investors and manufacturers always have at their disposal the money not actually needed in government fiscal operations. In both the United States and Europe the national securities have a steady market, but in the former it is at the partial expense of private credit while in the latter the proper expansion and contraction of credit is allowed.

In all parts of England, France and Germany there is a practically uniform and steady discount rate. The American system of banking does not give all sections a fair rate of interest. This is partially due to the fact that parts of the Union are still new and undeveloped but the absence of branch banking and the lack of a cooperative system adds largely to the difficulty. The Western and Southern states suffer because the strong city banks cannot have their representatives in those loan fields and progress is curtailed in many places capable of immediate development. Moreover, the American system is competitive to a degree that each bank looks only to its own position at a time of stringency when cooperative action would be more desirable.

European central banks can always influence the in-flow and out-flow of gold. The United States can do little to defend itself in this matter. In order to be a potent factor in international exchanges it is necessary to have a steady home market where paper can be rediscounted at any moment. The English, French and German institutions perform this service admirably. Thus when money is tight in Germany, the English and French immediately invest in German bills. This makes a demand both at home and abroad

and insures a rapid adjustment to normal conditions.

The United States has had central bank experience. Economically it has proven successful. The First United States Bank did much to restore public credit and performed an invaluable service as a government depository in the early days of the Republic. When the second war with Great Britian came, the First United States Bank had been abolished but the need for a central institution was so pressing that many statesmen changed their views and urged the establishment of a similar bank in order to hasten the resumption of specie payments. The Civil War was financed with the aid of an inadequate banking system and although great help was secured through various bank syndicates and the work of individuals, it was thought best to enact a national bank law and provide a safe and uniform currency. While we have secured this end, we have seen that the present law is defective in other respects. The defects could easily be remedied should we allow some responsible agency with adequate resources to supply commerce with an elastic currency, relieve the cumbersome treasury system and insure a more steady rate of interest throughout the country. A study of the Bank of France and the Imperial Bank of Germany substantiates this statement. Should the United States incorporate a bank of banks, owned by the various banking associations which would issue emergency currency and act as the fiscal agent of the government the uneconomic features of the American system would disappear. However, one great difficulty yet remains which must be overcome.

Public opinion is temporarily of greater moment than even sound economic principles. In no other country is this force more dominant than in the United States. Sometimes it acts upon its own initiative but usually

it is shaped by the leaders of the great political parties. The Second United States Bank was a victim of party politics and failed to be rechartered as a result of a presidential campaign. This happened during an era of reform and it was generally believed that the Bank was a dangerous money monopoly. At present there is a general fear of the money power. The press, statesmen and politicians are agitating against any form of monopoly. A central bank, although not possessing a banking monopoly, would be looked upon with suspicion by the average American. He would regard it as a means of putting greater power into the hands of Wall Street and corporation men. The newspapers, magazines and district politicians would agitate against it. This makes the question of the advisability of establishing a central bank in the United States primarily a political one.

It has been suggested that a central bank be organized which would be owned entirely by the banks themselves and not partially by the government. This would tend to eliminate partisan conflicts. The United States has learned that the frequent changes in the party in power would make the bank management too uncertain if its officers were men of political appointment. Not until this country has established a strong Civil Service can government ownership be kept above politics. A bank owned by banks would be more apt to be successful but such an institution although economically desirable is politically impossible under present conditions.

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